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PREPARATIONS FOR THE UNITED NATIONS CONFERENCE ON ENVIRONMENT AND DEVELOPMENT ON THE BASIS OF GENERAL ASSEMBLY RESOLUTION 44/228 AND TAKING INTO ACCOUNT OTHER RELEVANT GENERAL ASSEMBLY RESOLUTIONS: CROSS-SECTORAL ISSUES

Financial resources and mechanisms

Report of the Secretary-General of the Conference

1. The question of financial resources was earlier discussed in documents A/CONF.151/PC/18 and A/CONF.151/PC/51. This report should be read in conjunction with the earlier documents.

2. In this report the following questions will be reviewed:

(a) Financing and cost evaluation;

(b) Questions of governance and coordination.

I. FINANCING AND COST EVALUATION

3. The General Assembly, in resolution 44/228, section I, paragraph 15 (v), decided that the Conference should have as one of its objectives in addressing environmental issues in a development context the quantification of the

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* A/CONF.151/PC/96.

financial requirements for the successful implementation of Conference decisions. The Preparatory Committee in decision 3/2 decided that each Agenda 21 sectoral or cross-sectoral area document should describe means of implementation, including financing and cost evaluation. The Secretary-General of the Conference, in providing documentation for the fourth session of the Preparatory Committee, has included estimates in response to those decisions.

4. There is, of course, no way to provide more than general estimates for the cost of programme area activities, which are still often described in general terms. However, every effort has been made to provide a realistic estimate based on information available to the secretariat.

5. The estimates are formulated in terms of average annual costs for the period 1993-2000. Where possible, the total costs of the programme area activities, including those to be financed by the private sector and by national, provincial or local governments, are estimated. In each case estimates are provided for international requirements for grant or concessional financing.

6. Based on the individual programme area cost estimates, the overall requirements of concessional international finance for implementing Agenda 21 come to an average annual level of US$ 125 billion during the 1993-2000 period. This amount must be seen in the context of total costs four or five times this level. National Governments and their private sectors must make by far the largest contribution. Thus a US$ 125 billion level would respond to greatly increased policy and budget efforts by developing country partners themselves. Catalytic funding at such levels would bring a wholly new dynamism to the process.

7. The annual financing needed for programmes which address global issues is estimated at about US$ 15 billion, with the balance needed for accelerating development. The US$ 15 billion estimate is for the actions included in Agenda 21 and does not necessarily cover the cost of the obligations that would arise under the global conventions. Hence these estimates need to be modified in the light of developments in the negotiations on global climate and biodiversity. Caution is also urged in using this estimate in the light of the difficulty in drawing the line between global issues and issues of primary concern at the national level.

8. About US$ 750 million is estimated for strengthening international institutions. Of course part of this can be absorbed in agency budgets by displacing lower priorities. One thing is clear: the United Nations system already plays indispensable roles in many areas, which are usually not sufficiently appreciated by the general public. In many areas it should play an even more important role. One can hope that the Conference process will help to make the contributions of the United Nations agencies better known and facilitate support for their further strengthening.

9. The provision of estimates for concessional international financing raises the question as to how the proportion of total costs financed by such assistance should be fixed and how the rest of the costs could be financed. In most cases the estimates for concessional financing assume that a significant proportion of total requirements will come from private or national sources. This proportion would vary from programme to programme and from country to country. It is a policy parameter which must be fixed by negotiation. As for national costs, these are to a substantial degree financed within the private sector or by households and are reflected in the prices of goods and services. In other cases, costs will be covered by local or national governments from revenues. Still other costs might be covered by non-concessional external financing, although this source depends upon borrowing capacity.

10. Another essential element in making estimates is the assumption made about the policy framework. The estimates provided assume the existence of a positive policy framework which will assure efficient use of funds provided.

11. Given these two assumptions about sources of funding and about policy, the estimates are put in the context of a real partnership in additionality where each party is making an extra effort to achieve accelerated and sustainable development, with appropriate attention to environmental issues, including global environmental issues.

12. As indicated above, for each programme area an attempt has been made to consider the purposes of funding under three headings: (a) accelerating development, (b) global environmental issues and (c) strengthening the capacity of international institutions. There is, of course, no easy way to make a clear division between development and global environmental issues. Both are usually closely related, at least indirectly, and for policy reasons should be programmed in an integrated way. For example, a forestry project will usually be implemented primarily to achieve national developmental and environmental benefits, though it can also have important benefits for global issues, in this case as a sink for greenhouse gases. In making a breakdown of benefits, the secretariat has used the best information available to it but necessarily there remains a certain degree of judgement in dividing the costs between the two categories. For purposes of this analysis, global environmental issues have been defined as issues eligible for funding under the Global Environment Facility (GEF): ozone layer, climate change, biodiversity and oceans. In the case of international institutions, the secretariat has included only the costs of institutional strengthening. Where an institution is a channel for assistance to member countries, the assistance portion would be included in the other categories.

13. One of the most difficult problems in estimating costs has been the need to make assumptions about the scale of activity and numbers of countries participating. An attempt has been made to be realistic but, again, an element of judgement remains. Alternative judgements might be equally valid.

14. In looking at total costs it is difficult to judge what portion of total requirements for accelerated and sustainable development are represented by the totality of the proposed programme areas. For example, the programme areas do not include substantial amounts of assistance to support macroeconomic reforms. Yet such funds often enable Governments to finance general imports needed for market requirements for spare parts and raw materials, which are fully as important as project-type assistance.

15. The estimates are for requirements for concessional assistance. The list of countries needing concessional assistance varies over time. For example, many aid institutions provided substantial assistance to certain fast-growing countries - especially in Asia - which, because of their successful development efforts, are no longer considered to need concessional assistance. On the other hand, other countries which were once counted among aid donors are now receiving concessional assistance. The most important examples are found in the countries of Central and Eastern Europe now in transition from centrally controlled to market economies. Estimates of the needs of Central and Eastern Europe are generally not included because of the unavailability of reliable figures, although it is acknowledged that they may be very large although temporary in nature. In document A/CONF.151/PC/51, a figure of US$ 50 billion annually was mentioned. In this connection, in the declaration of the Organisation for Economic Cooperation and Development (OECD) Council meeting at the ministerial level in June 1991, the ministers recognized the need for substantial additional aid efforts - both quantitatively and qualitatively - and indicated that their determination to give high priority to their cooperation with developing countries would not be diminished because of their support for Central and Eastern Europe. 1/

16. An important problem in attempting to aggregate the estimates is the likelihood of substantial overlap. For example, a major effort to achieve sustainable livelihoods (see Agenda 21, sect. I, chap. 2, programme area entitled "Providing sustainable livelihoods for the poor") would certainly build much of the infrastructure needed for human settlements, for health infrastructure, for provision of energy, for reforestation, for rural infrastructure, for water systems and sanitation and for education. Indeed, the synergy implicit in these overlaps is an important motor to the accelerated development process.

17. The total requirements for concessional funding - which are clearly substantially greater than historical aid flows - are greater because many countries which have received substantial aid over past decades will have increased needs in the years ahead both to meet the requirements of accelerating development and to cope with environmental issues. The needs are also greater because a number of countries which did not receive substantial assistance in the past now have urgent requirements. Moreover, requirements increase as absorption capacity increases. New requirements by far outweigh the reduction of requirements for countries which have achieved self-sustaining development programmes.

18. There is anxiety that new requirements within industrialized countries themselves could cause a lessening of priority for developing countries. These concerns can only be allayed if funding for new requirements comes from a shift in industrialized country budget priorities from other lower priority budget categories. In this connection, changing strategic concerns have led to substantial changes in defence budget priorities. A combination of spending priority shifts and the sharing of continuing economic growth are the most likely sources for increased concessional financing to meet the multiple requirements of a global effort to reduce poverty through accelerated development and to meet environmental concerns.

19. In considering budget priority shifts, there is a need for a clear realization that international investments support achievement of national purposes. One telling example is the system of support for agricultural research provided through the Consultative Group on International Agricultural Research (CGIAR). While the international centres were intended to breed better strains of wheat and rice (and other crops) for use in developing countries, thus justifying the use of what OECD counts as official development assistance, in fact most industrialized countries (which are also agricultural producers) have received benefits far outweighing the costs. Industrialized country agriculture ministries had, in effect, a free ride on the aid budget. This is the justification for financing international transfers related to global environmental issues from environment ministry budgets, now practised by at least some donors. Of course, the decision on which budget category to utilize is an internal one, but even when the funding is kept in the aid budget, decision makers should be clear about the extent that benefits are shared. International transfers are often the most efficient way of achieving national purposes or of meeting international obligations. This is the basis of the discussion on international tradeable permits where assistance to developing countries, at least in the short run, could be the most efficient way to meet part of the reduction objectives.

20. Over the decade of the 1980s official development assistance from all sources, measured at 1989 prices and exchange rates, has run at about US$ 55 billion annually. 2/ In 1990 about 90 per cent of this came from the industrialized countries which are members of OECD. Over the previous decade, these countries achieved a modest growth in real aid levels about equivalent to increases in gross national product (GNP). This growth was offset by decreases in aid from other sources.

21. In considering the financial resources question in preparation for the Conference, heads of delegations from all countries need to consider the costs of inaction on Agenda 21 programmes. Without the changes in course implicit in these programmes we can expect serious problems ahead in many areas. Often the costs of inaction will have direct financial implications, as in the case of increased health care costs resulting from higher skin cancer rates and more respiratory problems; the higher costs of cleaning up as opposed to prevention of pollution and wastes; and the major costs anticipated to accommodate to sea-level rise. In some cases inaction will narrow the choices for future generations. It is important in considering the financial resources issue to be very clear about the costs of inaction.

22. If major changes in course are to be implemented in the years ahead, this will require a number of redirections. First will be the need for new policies which deal with the combined need to accelerate development and address global environmental issues. In industrialized countries most of the costs of these new policies will be reflected in the prices of goods. But the budgetary costs will not be negligible. For example, the United States of America is now allocating about US$ 115 billion or about 2 per cent of GNP to pollution control and expects that this will increase to 3 per cent of GNP in the years ahead, just to implement already enacted laws. 3/ Even as early as the mid-1980s Japan was allocating over 1 per cent of its GNP to pollution abatement and control. 4/ Those expenditures are for items of national concern. Actions directly related to global environmental issues are usually reflected in the price structures of the industrial and consumption processes - sometimes, as in the case of energy efficiency, resulting in lower costs.

23. Developing countries, too, will be changing policies with many of the actions resulting in changing cost structures rather than in additions to government budgets. But the need for major injections from outside is manifest. Both accelerated development and effective action on global environmental issues are critical for long-term global sustainability. The question is basically where industrialized countries should direct their resources in order to achieve the most out of their investments. Doubtless most funding will be appropriately used at home. Yet a marginal shift in priorities could make possible a wholly new tempo in the pace of development, in the elimination of poverty and in direct action on global environmental issues.

24. In the perspective of as much as 5 to 6 per cent of the GNP of some industrialized countries now being devoted to defence (with the percentage now coming down) and 1 to 3 per cent of GNP devoted to environmental cleanup, the idea of a shift in official development assistance (ODA) levels from 0.35 per cent to, say, 1.0 per cent of GNP does not seem out of the question.

25. Such a shift would produce about US$ 150 billion in annual concessional assistance and would make possible a series of positive responses to proposals for partnerships in sustainable development which would simultaneously accelerate job growth, meet human needs and enable countries to deal with global environmental issues. Since solutions for poorer country problems are an essential interest of industrialized countries, such a shift in priorities can be seen as a cost-effective way of achieving their national purposes.

26. It seems clear that aid agencies face strong competition in the budget process and that only a wholly new approach, based on the need for global environmental security mandated by heads of Government, could provide the new levels of funding required to support the changes in course implicit in Agenda 21. It is suggested that additional funding might be conceived of as an "Earth Increment" - funding needed in support of a global partnership in implementing a series of transitions so that by the year 2050 the human family will have modified to sustainable levels anthropogenic influences on the

atmosphere and other commons in the context of a fair utilization of limited environmental space and will have largely completed the global demographic transition through accelerated development and elimination of poverty.

27. The Earth Increment could be the basis for more rapid increases in official development assistance from traditional budgetary sources as well as for reallocating current levels to the most efficient use categories. But it could also trigger quicker action in alleviating unsustainable levels of indebtedness, perhaps cutting present levels of debt in half as part of country-level partnership arrangements (see sect. I, chap. 1, of Agenda 21, programme area C (Providing adequate net financial flows to developing countries)). It could also be the basis for sharing a portion of new revenues resulting, for example, from energy use fees. While most revenues would be offset by tax reductions in other areas, a specified portion would be reserved for the Earth. Only if all countries see coordinated changes in course as essential to the well-being of future generations, and only when economically advanced countries are willing to inject new fuel into the transition processes involved, will we able to count the Earth Summit a success.

II. QUESTIONS OF GOVERNANCE AND COORDINATION

28. Whatever the amounts of aid, it seems clear that aid will flow through many bilateral and multilateral channels. One special channel, established in March 1991, and still operating in its pilot stage is the Global Environment Facility (GEF), designed to provide new and additional resources related to global environmental issues. Debate continues as to whether the parties should utilize GEF to meet the financial requirements under new conventions or alternatively decide to establish new funds for that purpose. Related to this issue is the question of whether and how GEF might be modified to meet developing country concerns about its governance arrangements and mandate.

29. One issue is that of subject eligibility for funding. The four areas so far identified for operations include: protection of the ozone layer; limitation of emissions of greenhouse gases; protection of biodiversity; and protection of international waters. The last category has been interpreted to be limited to sea-based sources of pollution but recent statements suggest that land-based sources will also fall within the definition. An important issue relates to the extent other elements of Agenda 21 would be made eligible for funding and whether or not another fund would be needed for this purpose.

30. Another issue relates to governance. Developing countries have felt underrepresented in policy discussions. There is also debate as to where policy ends and operations begin. There seems to be a promising movement towards a consensus for change. The Chairman of GEF has agreed to put forward options for consideration by a special meeting of participants early in 1992.

31. There are proposals for other funds which need to be considered. The Beijing Ministerial Declaration on Environment and Development, for example, called for a "Green Fund" to "be established to provide adequate and

additional financial assistance ... to address problems which are not covered by specific international agreements, such as water pollution, coastal pollution affecting mangrove forest, shortages and degradation of fresh water resources, deforestation, soil loss, land degradation and desertification." 5/

32. Even if resources channelled through a modified GEF and/or other similar funds which may be set up are increased substantially, they will remain conduits for only a part of the funding. The greater part of total aid will continue to flow bilaterally and most multilateral funding will flow through the non-GEF World Bank windows, the regional development banks and United Nations organizations and bodies. This raises the important question of coordination.

33. Increasingly it has been accepted that real coordination must be managed by the developing country itself. Yet it is recognized that some developing countries lack the planning and management tools to play the coordinating role effectively. This means that the first goal for improved coordination is the strengthening of capacity in the developing country so that at both the macroeconomic and sector and subsector levels a country's own priorities and strategies will govern the allocation of aid resources. Nevertheless donor coordination also continues to perform a valuable role as a complement and supplement to recipient-led coordination.

34. While there are clearly systemic factors mitigating against full recipient-led coordination, including the inherently strong position of the institutions disbursing the funds, there is also a continuing strong policy expression in favour of it. For example, the OECD Development Assistance Committee High-level Meeting on 4 December 1991 endorsed "Principles for new orientations in technical cooperation", which stressed the central role of the recipient country and the partnership concept. The Principles call for a programme approach based on thematic, sector-wide, multidisciplinary and often multi-donor actions and discourage isolated proposals. They favour working from national sector and subsector strategies and programmes.

35. In the past, coordination has been encouraged by participation in consultative groups and round tables. These have been particularly effective in dealing with macroeconomic issues. In recent years developing countries have been encouraged to articulate country environmental strategies to supplement other planning documentation. With the recognition - emphasized in the Conference process - that development and environmental issues must be dealt with together, there is a perception that a comprehensive sustainable development approach is most appropriate, with country environmental strategies fully integrated with overall development policy processes.

36. Complementing the country-focused approach to coordination are a series of sector-type meetings for exchanges of view and experience and sometimes as a vehicle for raising funds to support a number of country sector plans. Such processes have worked well in support of agricultural research and the child survival revolution. There are other processes which are being considered for strengthening, such as the Water Supply and Sanitation Consultative Council

and the UNFPA-led process for population programmes. In the Agenda 21 chapter on capacity-building (sect. IV, chap. 5), it is proposed that UNDP take the lead in assuring the success of this kind of coordination process when it involves primarily capacity-building and technical cooperation. This would be encouraged if UNDP had funds available to it for support of country sector strategies. With funds of its own it would be in a stronger position to marshal funds from bilateral and other multilateral sources. Of course other organizations and bodies in the United Nations system could be expected to play a leadership role in their areas of expertise. Agenda 21 drafts suggest a number of cases where strengthened systems for exchange of experience and for encouraging fully adequate aid levels might benefit from a multi-recipient, multi-donor sector-oriented approach with the appropriate United Nations body coordinating transparent data collection and analysis and organizing the needed meetings. The World Bank would need to be a full partner in such processes, especially when an increase in financial resources was the predominant goal.

Notes

1/ More recently, the OECD Ministers of Environment and Development, meeting in Paris on 2 and 3 December 1991, included the following in their policy statement:

> "For developing countries to play their full part in coping with global environment problems, Ministers consider that appropriate additional financial resources must be made available to them as part of a strengthened partnership. In this respect, Ministers welcome the use of innovative financial mechanisms, such as debt-for-environment swaps. The commitment of OECD countries to finding the means to support world-wide cooperation in protecting the environment is manifested by the recent creation of a special fund under the Montreal Protocol and the establishment of the Global Environment Facility (GEF). Ministers underline that a modified GEF under appropriate governance should play a leading role as the multilateral mechanism to provide additional financial resources to developing countries in the resolution of environmental problems of global significance. In this regard, most OECD countries will provide new financial resources.
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> "Technological innovation and diffusion will be critical determinants of the pace and character of future economic growth and environmental management. All countries should create propitious conditions to encourage the private sector to innovate, market and use the technologies that contribute to sustainable development. Ministers note the important contribution that the private sector can make toward technology innovation, cooperation, the transfer of clean technology and environmental management information. Ministers thus commit their governments to expand technology cooperation with non-Member countries, to provide technology assistance and to address barriers to technology transfer, with a view to improving their access to environmentally-sound

technologies, to facilitate the transfer of such technologies to developing countries and to enhance their scientific, technological and administrative capacities to use and develop technologies, by:

"assisting the development of appropriate incentive structures, policies, legislation and institutions;

"providing information on technology availability and options;

"using technical assistance programmes and facilities to assist in building institutional capacities, providing experts, management know-how and training, supporting local research and development efforts, facilitating the acquisition of patents and licences in particular, within the framework of development cooperation, while taking full account of the need to protect intellectual property rights, and stimulating investments and the transfer of technology more generally;

"addressing barriers to technology transfer and adopting appropriate general measures to reduce such barriers in order to create incentives for the transfer of appropriate technology by the private sector."

2/ See OECD, Development Cooperation (December 1991), p. 172.

3/ United States presentation on technology cooperation and capacity-building at the OECD meeting of Ministers of Environment and Development (Paris, 2 December 1991).

4/ OECD, The State of the Environment (Paris, 1991), table 21.

5/ See "Beijing Ministerial Declaration on Environment and Development", adopted 19 June 1991 by the Ministers from 41 developing countries at the Ministerial Conference on Environment and Development, held at Beijing on 18 and 19 June 1991 (A/46/293, annex), para. 23.